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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 SEC-01 /111 W
---------- 129304
R 231817Z JAN 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5925
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY
22)

REF.: BONN 829

1. RECORD ISSUES OF DOMESTIC BONDS AND STOCKS IN 1975:
IN 1975 ISSUES OF NEW DOMESTIC BONDS AND STOCKS REACHED
A NEW RECORD. THIS WAS ACHIEVED DESPITE PRESSURE ON
THE BOND MARKET LAST SUMMER WHICH INDUCED THE BUNDESBANK
TO PURCHASE DM 7.6 BILLION OF PUBLIC BONDS FOR PRICE
SUPPORTING PURPOSES AND TO INTRODUCE A MORATORIUM ON
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THE ISSUE OF BOTH DOMESTIC AND FOREIGN DM-DENOMINATED

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BONDED LOANS. GROSS SALES OF DOMESTIC BONDS REACHED
DM 67.1 BILLION (COMPARED WITH DM 51.00 BILLION IN
1974) AND NET SALES (GROSS SALES MINUS REDEMPTIONS)
DM 48.9 BILLION (COMPARED WITH DM 26.7 BILLION IN 1974
AND DM 35.0 BILLION IN 1972, THE PREVIOUS RECORD).
ISSUES OF NEW DOMESTIC STOCKS (AT MARKET VALUES) CLIMBED
TO DM 5.9 BILLION (COMPARED WITH DM 3.5 BILLION IN 1974
AND THE PREVIOUS RECORD OF DM 4.7 BILLION IN 1971).

2. FOREIGN EXCHANGE MARKET: THE DOLLAR STRENGTHENED
AGAINST THE DEUTSCHEMARK. DURING THE REPORTING WEEK
SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

		FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)	
	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
JAN 16	DM 2.6010	-1.7	-1.8
19	2.5985	-1.4	-1.7
20	2.6023	-1.6	-1.7
21	2.6058	-1.6	-1.9
22	2.6140	-1.5	-1.8

THE ITALIAN FOREIGN EXCHANGE MEASURES DID NOT
CAUSE DISTURBANCE ON GERMAN FOREIGN EXCHANGE MARKETS.
OFFICIAL QUOTATIONS FOR THE ITALIAN LIRA CONTINUED IN
FRANKFURT EXCHANGE MARKETS,HOWEVER LIRA FORWARD MARKETS
WERE CLOSED ON JANUARY 21. THE FINANCIAL PRESS REPORTS
THAT THE BUNDESBANK HAS EXPRESSED UNDERSTANDING FOR THE
MOVES TAKEN BY THE ITALIANS AND HAS WARNED THAT THE
SITUATION SHOULD NOT BE "OVER DRAMATIZED". DIE WELT
AND THE FAZ REPORTED THAT ITALIAN CENTRAL BANK AUTHO-
RITIES HAD ASSURED THE BUNDESBANK THAT NO ADDITIONAL
RESTRICTIONS, INCLUDING TRADE RESTRICTIONS, WOULD BE
APPLIED. ACCORDING TO THE FAZ, ITALIAN MONETARY EX-
PERTS ARE CURRENTLY NEGOTIATING IN FRANKFURT ON CURRENCY
CREDITS FOR ITALY. THE FAZ STATES THAT ITALIAN QUARTERS
EXPECT THE BUNDESBANK TO MAKE AVAILABLE THE $500 MIL-
LION WHICH ITALY IN THE SPRING OF 1975 HAD PAID BACK
PRIOR TO MATURITY ON THE $2 BILLION CREDIT GRANTED BY
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THE FRG TO ITALY IN 1974. THIS REPORT SPECU-
LATED THAT, IN THIS CONNECTION, THE GOLD GUARANTEE
PROVIDED BY ITALY AT MARKET PRICES FOR THIS CREDIT
WOULD, IN VIEW OF THE DECLINING GOLD PRICE, BE
"TIGHTENED" FOR NEW ARRANGEMENTS.

3. MONEY MARKET: CONDITIONS ON THE GERMAN MONEY MARKET
REMAINED VIRTUALLY UNCHANGED WITH THE CALL MONEY RATE

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REMAINING AT OR SLIGHTLY ABOVE THE 3 1/2 PERCENT RE-
DISCOUNT RATE. DURING THE REPORTING WEEK FRANKFURT
INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
JAN 16	3.5-3.7	3.6-3.9	3.8-4.1
19	3.5-3.7	3.6-3.9	3.8-4.1
20	3.6-3.8	3.6-3.9	3.8-4.1
21	3.6-3.8	3.6-3.9	3.8-4.1

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SIL-01 L-03 H-02 PA-02 PRS-01 SEC-01 /111 W
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R 231817Z JAN 76
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22	3.5-3.7	3.6-3.9	3.8-4.1

4. BUNDESBANK FOREIGN POSITION: IN THE SECOND WEEK

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OF JANUARY (JANUARY 8-15) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.4 BILLION TO DM 85.1 BILLION. GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 26 MILLION AND HOLDINGS OF LIQUID FOREIGN EXCHANGE BY DM 63 MILLION WHILE GROSS LIABILITIES DECLINED BY ABOUT DM 310 MILLION.

5. BANK LIQUIDITY: IN THE SECOND WEEK OF JANUARY BANK LIQUIDITY DECLINED BY DM 1.3 BILLION. MAJOR FACTORS REDUCING LIQUIDITY WERE A DM 1.7 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK, PROBABLY REFLECTING FIRST PAYMENTS FOR THE MINOR MID-MONTH TAX

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DATE, AND A DM 1.3 BILLION INCREASE IN BANK RESERVES HELD AT THE BUNDESBANK. LIQUIDITY WAS INCREASED BY THE ABOVE MENTIONED INCREASE IN THE BUNDESBANK'S NET FOREIGN POSITION AND THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 1.3 BILLION). THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING REDISCOUNT BORROWINGS BY DM 1.3 BILLION.

6. NEW LOANS ON THE GERMAN BOND MARKET: ON JANUARY 26 A DM 700 MILLION LOAN OF THE FEDERAL RAILWAYS WILL BE OFFERED (COUPON 8 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS NON-CALLABLE, YIELD TO MATURITY 8 PERCENT). THE YIELD OF THE LOAN IS SOMEWHAT LOWER THAN THE 8.05 PERCENT YIELD OF THE DM 200 MILLION LOAN OF SCHLESWIG-HOLSTEIN OFFERED ON JANUARY 19 (SEE BONN 829). CURRENT-LY FOREIGN DM LOANS OF DM 100 MILLION EACH ARE BEING OFFERED BY THE NORWEGIAN COMPANY NORPIPE AND THE EURO-FIMA (EUROPEAN COMPANY FOR THE FINANCING OF RAILWAY EQUIPMENT). CONDITIONS OF THE NORPIPE LOAN ARE: COUPON 8 1/2 PERCENT, ISSUE PRICE 100, MAXIMUM MATURITY 8 YEARS WITH REPAYMENT BEGINNING AFTER 4 YEARS, AND OF THE EUROFIMA LOAN: COUPON 8 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS NON-CALLABLE. CURRENTLY THE FOLLOWING FOREIGN DM LOANS ARE BEING PREPARED (EXPECTED CONDITIONS IN PARENTHESIS): DM 50 MILLION (PRIVATE PLACEMENT) OF SINGAPORE AIRLINES LTD. (COUPON 8 3/4 PERCENT, ISSUE PRICE 100, MAXIMUM MATURITY 7 YEARS WITH REPAYMENT BEGINNING AFTER TWO YEARS); DM 100 MILLION OF THE ITALIAN FIRM MONTEDISON (COUPON 9.5 PERCENT); DM 50 MILLION (PRIVATE PLACEMENT) OF ZEN-TRALKASSE WIEN (COUPON 8 1/2 PERCENT, ISSUE PRICE 99 1/4, MAXIMUM MATURITY 7 YEARS WITH REPAYMENT BE-GINNING AFTER 5 YEARS).

7. TAX RELIEF - LOSS CARRY-BACK DRAFT LEGISLATION SUB-MITTED TO BUNDESTAG: FORMAL CABINET APPROVAL OF THE

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FINANCE MINISTRY'S LOSS CARRY-BACK DRAFT LEGISLATION
(SEE BONN 829) CAME ON SCHDULE, I.E., ON JANUARY 2L.
AFTER FIRST READING IN THE BUNDESTAG ON JANUARY 22, THE
BILL WAS REFERRED TO COMMITTEE FOR QUICK ACTION. GIVEN
THE WIDESPREAD SUPPORT (SEE BONN 401), GERMAN TAXPAYERS
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IN ALL LIKELIHOOD WILL SOON BE PERMITTED TO SET OFF
LOSSES INCURRED IN A GIVEN YEAR AGAINST PROFITS OF THE
PRECEDING YEAR. THIS ONE-YEAR CARRY-BACK WILL APPLY
FOR THE FIRST TIME TO LOSSES INCURRED IN 1975, WHICH
CAN BE SET OFF AGAINST 1974 PROFITS, THUS LEADING TO
REIMBURSEMENT OF CORPORATE AND PERSONAL INCOME TAXES.
IT WILL BE LIMITED TO A MAXIMUM OF DM 5 MILLION. THE
EXCESS OVER THIS AMOUNT, IF ANY, CAN BE SET OFF AGAINST
PROFITS IN THE FOLLOWING FIVE YEARS IN LINE WITH
EXISTING RULES WHICH ARE TO BE LEFT UNCHANGED. REVENUE
"LOSSES" INVOLVED ARE OFFICIALLY ESTIMATED TO AMOUNT
TO DM 300 MILLION. IT SHOULD BE BORNE IN MIND, HOW-
EVER, THAT THE LOSS CARRY-BACK IN MOST CASES MERELY
MEANS DEFERRED PAYMENT RATHER THAN OUTRIGHT TAX SAVINGS.

8. NEW DM 300 MILLION PROGRAM TO ALLEVIATE UNEMPLOYMENT
IN THE OFFING: ON JANUARY 21, THE CABINET IN PRINCIPLE
AGREED ON A DM 300 MILLION PROGRAM TO ALLEVIATE UNEMPLOY-
MENT, PARTICULARLY AMONG YOUTH, PRIMARILY THROUGH VO-
CATIONAL TRAINING AND RE-EDUCTION MEASURES. FINAL
CABINET DELIBERATIONS OF THE ISSUE HAVE TENTATIVELY
BEEN SCHEDULED FOR NEXT WEEK.
HILLENBRAND

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To: STATE
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